IIFL Wealth Finance Limited

October 17, 2019

Rating:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper (IPO Financing)	5,000 (Rs. Five Thousand Crore only)	CARE A1+ [A One Plus]	Assigned

*Details of instruments/facilities given in **Annexure I***

Detailed Rationale and Key Rating drivers:

The rating assigned to debt instrument of IIFL Wealth Finance Limited (IWFL) factors in the long standing track record and established franchise of its parent, IIFL Wealth Management Limited (IWML) as a leading player in the wealth management, distribution and advisory business in India, experienced management team, strong institutional shareholding and demonstrated ability to raise capital from marquee investors. The rating further factors in synergies enjoyed by IWFL with group companies and support from the parent, healthy capitalization levels of IWFL along with comfortable liquidity profile, comfortable gearing of IWFL and stable profitability parameters.

The rating also factors in limited track record of IWFL in lending business and product concentration with majority of the loan portfolio being Loan against Securities (LAS), given largely to the group's wealth customers.

Continued parent support in form of business linkages, overall profitability parameters, seasoning of the portfolio in the lending book, capitalization and asset quality are the key rating sensitivities.

Detailed description of Key Rating drivers:

Key Rating Strengths:

Long standing track record and established franchise as a leading player in the wealth management, distribution and advisory business in India

IIFL Wealth is one of the leaders and fastest growing Wealth Management company in India managing AUM of Rs.134,506 crore with presence in 33 locations across 9 geographies across major countries and Indian cities. IIFL Wealth offers a broad range of products and services to participate in a larger share of the client wallet, including financial products distribution, advisory, brokerage, asset management, credit solutions and estate planning. The company is also the largest fund manager of AIFs in India managing AUM of Rs.22,339 crore as on June 30, 2019.

IWFL is a 100% subsidiary of IWML and is a systemically important RBI registered non deposit taking NBFC operating as lending vehicle for the wealth business of IIFL Group, with the key products being Loan against securities (LAS), Loan against property (LAP) and Margin funding for existing customers of the wealth business.

IWFL provides funding to High Net-worth Individuals (HNI) and Ultra High Net-worth Individuals (UHNI) clients against diversified portfolio as collateral. As on March 31, 2019, IWFL had AUM of Rs.4,615 crore majorly consisting of Loan against Shares (LAS) portfolio which contributed 85% of the total AUM.

Experienced management team which has remained stable over a long period

IWML has experienced professionals on its Board and key management team with strong experience in respective business segment.

Mr. Karan Bhagat is the Founder, Managing Director (MD) and Chief Executive Officer (CEO) of IWML and is responsible for providing direction and leadership towards the achievement of the organization's philosophy, mission, vision and its strategic goals and objectives. Mr. Yatin Shah is the Co-founder and Executive Director. Mr. Anirudha Taparia is also an Executive Director having over 20 years of experience in the financial services industry across consumer, commercial and private banking.

IWML has been able to retain most of its experienced key management as a result the company has had a stable and experienced management for a long time making it one of the largest players in Wealth Management business.

Strong institutional shareholding and demonstrated ability to raise capital from marquee investors

Post reorganization, IIFL Wealth Management Limited has strong institutional shareholding with General Atlantic Singapore Fund Pte Ltd (General Atlantic), a leading global growth equity fund, having an equity ownership of 21.87%, Fairfax group 18.96%, Other Institutional Shareholders 7.58% and others 26.90%. The shareholding of the promoters (Mr. Nirmal Jain & promoter group) stood at 24.69% as on July 19, 2019.

In July 2018, the company raised additional equity capital of Rs.746 crore by issuing equity shares of Rs.2 each from General Atlantic, Ward Ferry, Rimco (Mauritius) Limited, Amansa Holdings Private Limited, Steadview and HDFC Standard Life Insurance Company Ltd bought approximately 4.64% of the diluted post-closing share capital of IIFL Wealth Management Limited.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Synergies with group companies along with support of parent company

IWML (consolidated) is an operational company as well as a holding company having 10 wholly owned domestic subsidiaries, 8 wholly owned international subsidiaries for business optimization. IWFL (a wholly-owned subsidiary of IWML) contributed 45% to the total income of IWML (consolidated) and is also the largest revenue contributor of IWML (consolidated) and predominantly provides funding to customers of IWML.

Healthy capitalization levels with comfortable gearing levels

IWML had a consolidated tangible net worth of Rs.2,618 crore and the consolidated gearing of IWML stood at 2.34x as on March 31, 2019 (P.Y.: 3.78x) whereas IWFL has gearing of 3.20x as on March 31, 2019 (P.Y.: 5.47x). Majority of the consolidated debt is in the books of IIFL Wealth Finance which is a lending arm of IWML.

IIFL WFL has consistently been able to maintain Capital Adequacy Ratio (CAR) above 20%. The company reported CAR of 32.78% (P.Y.: 21.92%) with Tier I CAR of 28.66% (P.Y.: 17.02%) as on March 31, 2019 and CAR of 30.41% with Tier I CAR of 27.39% as on June 30, 2019.

Comfortable liquidity profile of IWFL

The company has adequate liquidity with no cumulative negative mismatch as per the asset liability maturity (ALM) profile of the company dated June 30, 2019. As per the ALM profile as on June 30, 2019, the company had cumulative debt servicing of Rs.4,028 crore, against which the company had repayment from loan portfolio of Rs.4,878 crore. In addition, the company had cash and liquid investments of Rs.2,681 crore and unutilized bank lines which provide comfort. Moreover, the company has Rs.400 crore of sanctioned WCDL facility of which Rs.117.10 crore is unutilized as on June 30, 2019.

Stable profitability parameters

IIFL Wealth Management Limited, during FY19, reported PAT of Rs.375 crore on total income of Rs.1,577 crore (PAT Margin: 23.75%) compared to PAT of Rs.380 crore on total income of Rs.1,715 crore during FY18 (PAT Margin: 22.17%). The gearing levels of the company declined on account of issue of new paid up equity shares of Rs.2 each and stood at 2.34 times as on March 31, 2019 as against 3.78 times as on March 31, 2018. The company's NIM was 2.38% as on March 31, 2019 compared to 1.17% as on March 31, 2018 on account of about 100% growth NII and relatively stagnant asset size. ROTA of the company declined on account of lower PAT and relatively stagnant asset size and stood at 3.94% as on March 31, 2019 as against 4.44% as on March 31, 2018.

IIFL Wealth Finance Limited, during FY19 reported PAT of Rs.182 crore on total income of Rs.710 crore (PAT Margin: 25.58%) compared to PAT of Rs.143 crore on total income of Rs.770 crore during FY18 (PAT Margin: 18.61%). 26.60% growth in PAT was on account of 81.26% growth in Net Interest Income (NII) and 24.50% decline in total expenses. As on March 31, 2019, total loan portfolio of the IWFL de-grew by 30.75% from Rs.7,244 crore to Rs.5,016 crore. Investment book of the company increased by around 4x to Rs.2,939 crore as on March 31, 2019 due to investment in government securities of Rs.1,035. Total debt of the company declined by 8.40% from Rs.6,618 crore as on March 31, 2018 to Rs.6,062 crore as on March 31, 2019. Subsequently, total finance cost of the company declined by 20.83%. Net Interest Margin (NIM) of the company also increased on account of higher NII supported by lower finance cost to 2.82% as on March 31, 2019 compared to 1.78% as on March 31, 2018. Operating expense of the company also declined due to lower employee cost as per IND AS effect resulting in lower operating cost. As a result, the company's ROTA stood at 2.19% as on March 31, 2019 compared to 1.98% as on March 31, 2018. Due to issuance of new equity shares, tangible net-worth of the company increased by 56.46% resulting in lower RONW of 11.70% as on March 31, 2019 against 12.58% as on March 31, 2018. The company reported NIL Gross NPA as on March 31, 2019 (P.Y.: NIL).

Key Rating Weaknesses:

Limited track record of IWFL in lending business

IIFL Wealth Finance Limited (erstwhile 'Chephis Capital Markets Limited') started its lending operations in FY16. The company operates as a lending vehicle for Wealth business of IIFL Group, with the key products being Loan against securities (LAS), Loan against property (LAP) and Margin funding for existing customers of the IIFL Wealth clients.

Product concentration in IWFL with single line of business with majority of the loan portfolio being LAS largely for captive customers

IIFL Wealth Finance Limited has a diversified loan portfolio; however, LAS forms the major share of loan portfolio contributing about 75% of the total loan book. The company also provides loans against property (LAP); however, LAP is usually used as additional collateral and no loans are disbursed with LAP as sole collateral as indicated by the management. In LAS capital (which contributes 76% of the loan portfolio), the collateral is usually taken in the form of equity, AIFs, Investment in PMS, etc. whereas, in LAS Non-Capital (which contributes 8% of loan portfolio), the collateral is usually debt securities such as bonds, government securities etc.

Analytical Approach:
CARE Ratings has assessed the credit profile of IIFL Wealth Finance Limited by considering the consolidated financials of IIFL Wealth Management Limited owing to its operational and business linkages, being a 100% subsidiary of IIFL Wealth Management Limited. The business of IIFL Wealth Finance Limited complements the overall wealth management, distribution and asset advisory segments of the IIFL group being the only lending entity of the IIFL Wealth. CARE has also assessed the synergies IIFL Wealth will have with other IIFL group companies in terms of shared brand name and common promoters.

Subsidiaries considered as a part of consolidated financials:
- IIFL Trustee Limited
- IIFL Distribution Services Limited
- IIFL Asset management Limited
- IIFL Alternate Asset Advisors Limited
- IIFL Investment Advisor & Trustee Services Limited
- IIFL Wealth Advisors (India) Limited
- IIFL Altiore Advisors Limited
- IIFL Wealth Securities IFSC Limited
- IIFL Wealth Employee Welfare Benefit Trust
- IIFL (Asia) Pte. Limited
- IIFL Securities Pte. Limited
- IIFL Capital Pte. Limited
- IIFL Inc.
- IIFL Private Wealth Management (Dubai) Limited
- IIFL Private Wealth Management (Hong Kong) Limited
- IIFL Asset Management (Mauritius) Limited
- IIFL Capital (Canada) Limited

Liquidity Profile: Adequate
The company has adequate liquidity with no negative cumulative mismatch as per the asset liability maturity profile of the company dated June 30, 2019. As per the ALM profile as on June 30, 2019, the company had cumulative debt servicing of Rs.4,028 crore, against which the company had repayment from loan portfolio of Rs.4,878 crore. In addition, the company had cash and liquid investments of Rs.2,681 crore and unutilized bank lines which provide comfort. Moreover, the company has Rs.400 crore of sanctioned WCDL facility of which Rs.117.10 crore is unutilized as on June 30, 2019.

Applicable Criteria:
Criteria on assigning outlook to Credit Ratings
CARE's policy on default recognition
Rating Methodology- Non Banking Finance Companies
Financial Ratios-Financial Sector
Factor Linkages in Ratings
Rating of Short term instruments

About the Company
IIFL Wealth is one of the largest and fastest growing Wealth Management company in India managing AUM of Rs.134,506 crore with presence in 33 locations across 9 geographies across major countries and Indian cities. IIFL Wealth offers a broad range of products and services to participate in a larger share of the client wallet, including financial products distribution, advisory, brokerage, asset management, credit solutions and estate planning. The company is also the largest fund manager of AIFs in India managing AUM of Rs.22,339 crore as on June 30, 2019. In 2016, IIFL Wealth Management Limited acquired Chephis Capital Markets Limited by infusing Rs.900 crore as equity capital. The company was later renamed as IIFL Wealth Finance Limited. IIFL Wealth Finance Ltd (IIFL Wealth Finance) is a 100% subsidiary of IIFL Wealth and is a systemically important RBI registered non deposit taking NBFC operating as lending vehicle for Wealth business of IIFL Group, with the key products being Loan against securities (LAS), Loan against property (LAP) and Margin funding for existing customers of the Wealth business.

Brief Financials – IIFL Wealth Management Limited (Consolidated)

(Rs. crore)

Particulars	FY18 (A)	FY19 (A)
Total Income	1,715	1,577
PAT	380	375
Total Assets*	9,546	9,488
ROTA (%)	4.44	3.94

*A: Audited; *: Net of Intangibles, Deferred Tax Assets (DTA) and Goodwill on Consolidation*
All ratios are as per CARE's calculation

Brief Financials – IIFL Wealth Finance Limited (Standalone)

(Rs. crore)

Particulars	FY18 (A)	FY19 (A)
Total Income	770	710
PAT	143	182
Total Assets*	8,061	8,501
Net NPA (%)	-	-
ROTA (%)	1.98	2.19

*A: Audited; *: Net of Intangibles and Deferred Tax Assets (DTA)*
All ratios are as per CARE's calculation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure II

Annexure I: Instrument Details

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Commercial Paper (IPO Financing)	-	-	1-30 days	5,000	CARE A1+

Annexure II: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA; Stable	-	CARE PP-MLD AA; Stable (24-Jan-19)	-
2.	Short Term Instruments – Commercial Paper – Commercial Paper (IPO Financing)	ST	5,000.00	CARE A1+	-	-	-

Note on complexity levels of the rated instrument
CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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